

STATE OF CALIFORNIA
ELECTRICITY OVERSIGHT BOARD



Gray Davis, Governor

June 19, 2001

VIA ELECTRONIC TRANSMISSION

Hon. David P. Boergers, Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, D.C. 20426

**Re: California Independent System Operator Corporation, *et al.*
Docket Nos. RT01-85-000, RT01-83-000, RT01-82-000 and RT01-92-000**

Dear Secretary Boergers:

Attached for filing in the above-captioned dockets is the document entitled:
**“COMMENTS OF THE CALIFORNIA ELECTRICITY OVERSIGHT BOARD
ON THE SUBMISSION OF THE CALIFORNIA INDEPENDENT SYSTEM
OPERATOR CORPORATION, SAN DIEGO GAS AND ELECTRIC COMPANY,
AND SOUTHERN CALIFORNIA EDISON COMPANY REGARDING
REGIONAL TRANSMISSION ORGANIZATION PLANS AND ON THE RTO
COMPLIANCE FILING OF PACIFIC GAS AND ELECTRIC COMPANY.”**

Thank you for your assistance in this matter.

Sincerely,

/s/

M. Catherine George
Senior Staff Counsel

Enclosures

cc: Official Service Lists of Docket Nos. RT01-85-000, RT01-83-000, RT01-82-000
and RT01-92-000 by regular mail

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

California Independent System Operator Corporation)	Docket No. RT01-85-000
)	
Pacific Gas & Electric Company)	Docket No. RT01-83-000
)	
San Diego Gas & Electric Company)	Docket No. RT01-82-000
)	
Southern California Edison Company)	Docket No. RT01-92-000

**COMMENTS OF THE CALIFORNIA ELECTRICITY OVERSIGHT BOARD ON
THE SUBMISSION OF THE CALIFORNIA INDEPENDENT SYSTEM
OPERATOR CORPORATION, SAN DIEGO GAS AND ELECTRIC COMPANY,
AND SOUTHERN CALIFORNIA EDISON COMPANY REGARDING
REGIONAL TRANSMISSION ORGANIZATION PLANS AND ON THE RTO
COMPLIANCE FILING OF PACIFIC GAS AND ELECTRIC COMPANY**

In accordance with the Federal Energy Regulatory Commission's (Commission) April 26, 2001 order in *San Diego Gas & Electric Company, et al.*, 95 FERC ¶ 61,115 (April 26 Order), the California Independent System Operator Corporation (CAISO), jointly with the San Diego Gas and Electric Company (SDG&E) and Southern California Edison Company (SCE) (Joint Parties), and Pacific Gas and Electric Company (PG&E), individually, submitted Regional Transmission Organization (RTO) proposals in the above captioned dockets.¹ In response to these proposals and pursuant to the Commission's June 4, 2001 Notice of Filing in the above-captioned dockets, the

¹The filings are referred to herein as the Joint Filing and the PG&E Filing, respectively.

California Electricity Oversight Board (Oversight Board) submits the following comments.²

As an initial matter, the Oversight Board supports the Joint Parties' determination to submit the instant proposal under protest on the basis that it is improper and unlawful for the Commission to condition the market mitigation measures established in the April 26 Order upon the submittal of an RTO proposal. For the reasons explained in the Oversight Board's request for rehearing of the April 26 Order filed with the Commission on May 29, 2001, the Oversight Board agrees with the Joint Parties' conclusion that "[t]he Commission's policy favoring the *voluntary* formation of regional transmission organizations ("RTOs"), however strongly held, cannot justify the threatened or actual refusal to fulfill its primary statutory mission: protecting consumers against unjust and unreasonable wholesale electric rates." Joint Filing, at 4. Thus, the Oversight Board fully supports the CAISO's decision to "reserve[] its right to withdraw this submission if, in addition to considering the reforms needed to bring the CAISO into full compliance with Order No. 2000 and the near-term steps described above, the Commission were to order the CAISO to join another regional transmission organization or otherwise fundamentally alter this proposal." Joint Filing, at 5.

The Oversight Board supports the Joint Filing and urges that the Commission, likewise, recognize that the CAISO either already satisfies, or will satisfy through the completion of ongoing reform efforts, the characteristics, functions and other

² The Oversight Board filed a motion to intervene in the above-captioned dockets on February 21, 2001.

requirements of an RTO as established by the Commission in Order No. 2000.³

Like the Joint Parties, the Oversight Board recognizes that California is part of a larger interconnected transmission grid. The Oversight Board further recognizes that facilitating transmission access and encouraging greater coordination in planning and operation of adjacent control areas will be beneficial not only to California but also for transmission systems elsewhere in the Western Interconnection. Also like the Joint Parties, however, the Oversight Board believes that recognition of a state-wide RTO will not prevent the resolution of “seams” and other issues that will improve coordination among control areas. To the contrary, the CAISO is already engaged in discussions with RTO West and Desert Star toward resolving these types of issues. Moreover, the CAISO anticipates proposing further measures to coordinate with other control areas to propose an appropriate reciprocal waiver of the transmission access charge, to investigate measures designed to eliminate rules and practices that impede interstate transactions and to examine the use of a common approach to facilitate transmission access among RTOs. Joint Filing, at 8.

While the Oversight Board believes that it is not necessary to establish an Interconnection-wide RTO in order to achieve the objectives established in Order No. 2000, in any event it is infeasible to do so at this time. In addition to functioning as an independent system operator, the CAISO operates markets for balancing energy, congestion management, and ancillary services in its efforts to operate the electricity grid reliably. Many of the market rules under which the CAISO operates currently are

³*Regional Transmission Organizations*, Order No. 2000, 65 *Fed. Reg.* 809 (Jan. 6, 2000), FERC Stats. & Regs. Preambles ¶ 31,089 (Jan. 6, 2000), *order on reh’g*, Order No. 2000-A, 90 FERC ¶ 61,021, FERC Stats. & Regs. Preambles ¶ 31,092 (Feb. 25, 2000) (Order No. 2000).

undergoing reform. Moreover, as operator of the transmission grid in California, the CAISO faces unique challenges with respect to the financial weakness of the two largest investor owned utilities operating within California. The CAISO faces the additional prospect of accommodating public ownership of transmission facilities in accordance with an agreement in principle reached between the State of California and the Southern California Edison Company. As the CAISO recognizes, “[t]here are practical difficulties facing the formation of such an organization [Interconnection-wide RTO] that preserves an appropriate role for state authorities. Such an RTO would either have to accommodate all the different market structures that likely will develop in the region, or await an agreement among all affected entities on a common market structure.” Joint Filing, at 7. Formation of an Interconnection-wide RTO, particularly at this juncture, would require significant investments of time and money when resources would be better, and more productively, focused on resolving market dysfunctions, coordinating regional transmission planning and taking steps to remove impediments to transmission access.

For the reasons explained by the Joint Parties and reiterated above, the Oversight Board urges the Commission to recognize that the CAISO either already satisfies, or will timely satisfy, the requirements for an RTO under Order No. 2000.

The Oversight Board offers the following limited comments concerning the PG&E Filing. First, the PG&E Filing reflects an obvious preference for the eventual formation of a West-Wide RTO modeled after RTO West for which the Commission recently approved Stage 1 of the development. *Avista Corporation, et al.*, RT01-35-000, *et al.*, 95 FERC ¶ 61,114 (2001). PG&E states that it “strongly supports a multi-state RTO as the best approach to managing market solutions and increasing reliability”

Joint Filing, at 2. While the Oversight Board agrees with PG&E that regional solutions are essential in solving the prevailing market dysfunctions, as explained above, it is neither necessary nor feasible to form an Interconnection-wide RTO in order to achieve the gains that regional solutions may offer. PG&E observes that “[i]ncreased reliability is a function of regional planning, removing opportunities for discriminatory practices, and facilitating the movement of electricity across multiple control areas.” PG&E Filing, at 2. As explained in the Joint Filing, the CAISO is already engaged in discussions with other regional entities, including Desert Star and RTO West, to make progress in these efforts.

With respect to Order No. 2000’s first characteristic, that of independence, PG&E proposes that the Commission implement a process that would result in selection of a new CAISO governing board. As fully explained in the Joint Filing, the CAISO’s governing board structure, established in amended bylaws (pending before the Commission in Docket No. EL00-95-030, et al.), satisfies the tests for independence articulated in Order No. 2000. The PG&E Filing does not identify any aspect of the CAISO governing board structure that fails to satisfy the criteria established by the Commission for use in evaluating independence.

Finally, in Order No. 2000, the Commission specified that an RTO must serve a region that is of sufficient scope and regional configuration to permit it to maintain reliability, effectively perform its required functions, and support efficient and non-discriminatory power markets. See Joint Filing, Appendix at 10, citing Order No. 2000. As explained at length by the Joint Parties, the CAISO is sufficient in terms of geographic range, the number of buyers and sellers, the amount of load served and the

number of transmission lines under its operational control, to meet Order No. 2000's tests for evaluating the scope of a proposed RTO. Joint Filing, Appendix at 11. Moreover, as the Joint Parties note, "[t]he CAISO is structured to permit rapid, uncomplicated expansion" (Joint Filing, at 14), to accommodate non-member California transmission owners, and, similarly, operates on platform that will "easily accommodate integration and coordination with facilities and Control Areas outside California" Joint Filing, Appendix at 14. Citing the Commission's recent order in GridFlorida, LLC, et al (94 FERC ¶ 61,363 (2001)), the Joint Parties note that "[t]he fact that the CAISO's extensive transmission grid and Control Area are located entirely within a single state does not render its scope and configuration inadequate." Joint Filing, at 19. While PG&E cites to benefits that might be achieved through eventual formation of an Interconnection-wide RTO, PG&E fails to establish that these same benefits cannot be achieved through an RTO of lesser, but nevertheless substantial, scope and configuration such as the CAISO.

For the reasons set forth above, the Commission should approve the proposal as reflected in the Joint Filing. Thereafter, the hurdles and potential benefits associated with moving toward greater integration of RTOs can be considered.

Dated: June 19, 2001

Respectfully submitted,

/s/

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CERTIFICATE OF SERVICE

I hereby certify that I have caused the foregoing document to be served by postage paid first class mail upon each person designated on the official service lists compiled by the Secretary for these proceedings on June 19, 2001.

Dated at Sacramento, California, this 19th day of June 2001.

/s/

Lawrence A. Cook